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Numerous Detailed Problems of Record Keeping Will be Faced, and Handling of Them May Determine Whether the New Laws Will be Drastically Changed, Says This Expert

Administering Social Insurance

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By HERMAN FELDMAN

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1943 FEB 14/20

ALTHOUGH America has, in large part, turned from the debate over whether or not we should have social insurance laws to the practical problems of their administration, public opinion is still in a formative state and will be greatly influenced by the immediate experience in attempting to administer such laws. Successful and economical administration will win over many who are unfriendly; conspicuous failure will encourage a reaction, with the not impossible result of drastic change or perhaps a withdrawal of part of the social insurance system. The next year or two will be particularly important in the fortunes of social insurance because public opinion will be affected by these early impressions.

The chief immediate problem of administering social insurance is not the granting of unemployment compensation or pensions, but the starting of a proper system of records and tax collections so as to make possible such payments. Under the Federal stipulation, benefits are not payable as unemployment compensation in any state until after January 1, 1938. This is a godsend, since it postpones for two years the dreaded day—from the administrative standpoint—when the officials must face thousands of workers who have become eligible for benefits and who demand what is due them in terms of credits in the records.

FIVE NEW SOCIAL INSURANCE TAXES

Most people do not realize that the social insurance taxes to be collected

are five in number. Two of these, (one levied on the employer on his payroll and the other on workers on their wages), are for old age pensions and do not come in force until January 1, 1937. Anything a year off holds much less terror than does the immediate problem of collecting taxes already payable. The other three levies are for unemployment insurance. They are as follows: one is a nation-wide Federal tax, levied only upon employers, of 1% of the payroll in 1936 (2% in 1937, and 3% in 1938 and thereafter). Only one-tenth of these amounts will be actually collected by the Federal government in any state which has adopted an approved unemployment insurance plan and to which the employer is required to pay an amount equivalent to nineteenths of the Federal tax. Where the states have passed such laws, there is, therefore, a second tax on employers' payrolls. The third tax is one prescribed, independently of the Federal act, by certain states which desire their workers to contribute to the unemployment insurance funds. Of this group of states, including over half of the jurisdictions which have already enacted laws, lucky Massachusetts provides that employees shall not be liable for contributions until 1937, but New Hampshire, Alabama, California, Washington and Oregon made the employee contribution payable beginning January 1, 1936.

The collection by the states of the employers' payroll tax, is less of an

immediate problem than the collection of employee contributions. The difference is only a matter of months—but of crucial months. A state which does not have the employee contributory feature can, if forced to do so, postpone the collection of its taxes to the end of the year. In this they can follow the example of the Federal Government and New York State, whose taxes on employers' payrolls, although already in force, will, like the income tax, not be collected until next year. But where employee contributions are payable, these must, as a practical matter, be collected immediately, and at regular weekly or monthly periods.

Consequently, in the states with contributory unemployment insurance laws there is a tremendous scurrying around to set up some kind of system to start employers on the process of reporting their payrolls, paying their premiums and submitting with these the employee contributions deducted from wages. Because the collection of employee contributions is the more urgent obligation, we shall first consider certain neglected phases of this problem. Several special problems involved in the establishment of a feasible procedure in collecting employers' taxes will then be discussed.

COLLECTING THE EMPLOYEE'S CONTRIBUTIONS

The situation with regard to employee contributions must be viewed in perspective in order to see the

difficulties ahead of us. It is true that only one per cent will in a year or two be deducted from the wages of employees in many or most states for unemployment insurance. But another one per cent will be deducted from his wages for old age pensions by the Federal Government beginning in 1937, this percentage to increase gradually to three per cent in 1949. Eventually this country will have compulsory contributory health insurance, and there will be a further deduction from wages of perhaps two to three per cent. It is not at all inconceivable, therefore, that in a decade most workers will have legal deductions of as much as seven per cent of their own wages. In any event, many will soon have four per cent deducted, aside from non-legal deductions for purely company group insurance and similar plans. This creates several large problems.

Thus, it becomes very important for the employee to make sure that the contributions which are payable in his behalf are actually paid, since the benefits for which he is later eligible are in large part based upon the number of weeks during which such premiums have been paid. If for reason of negligence or dishonesty the employer has failed to pay his tax and has, in addition, appropriated the employee's contribution, the worker who comes to the employment office will have his troubles in trying to prove that in certain past months he actually worked more time, earned

more wages and paid more premiums than his employer has recorded.

In the case of unemployment insurance many such discrepancies will be earlier discovered because of the fact that some of the employees entitled to benefits will soon prove their case and will call attention to large scale variations. In the case of the pension plan, however, such matters may not come to light for years, since the employee has no right to claim such pension until he is actually of pensionable age.

To avoid the many misunderstandings which may arise with regard to just what credits a worker has built up, he should, in contributory systems, by the terms of the system, be able to examine periodically something like his own record, and see the tangible receipts that payments in his behalf have been made. Various corporations are developing check stubs and other devices, but for general purposes there should be an official employee pass book or card recording monthly the amount of money paid by him. This pass book should be available to any worker for inspection at any time, and when he is laid off he should be required to ask his employer for his book. He should be called upon to deposit it, as in the English system and in other plans abroad, at the public employment office when he registers as unemployed. Thus at all times the pass book will serve not only as a receipt for the employee's own contributions, but as supplementary evidence of the record of the

number of weeks he has worked and of the number of taxes paid in his behalf by the employer.

This will have a peculiar significance in the understandings of workers regarding their wages. If an employee is supposed to be getting a wage of \$25 a week, and let us say, \$1.00 is deducted for payments in his behalf, there is nevertheless a powerful tendency for him to regard his weekly salary as being \$24 and not \$25. Some of our New Hampshire employers, otherwise favorable to the law, were opposed to the feature of employee contributions on this score. They feared misunderstandings because their deduction, on compulsion by the government, of part of the wages for the employee's future use would not be recognized as wage payments.

The misapprehension needs to be counteracted by psychological and practical devices. Wherever employee contributions are part of the social insurance scheme, this may be done by something similar to the English plan of stamped books with adhesive or metered stamps, which ever prove most practical. The worker will have a frequent and tangible reminder that the employer has paid him two kinds of wages, one in cash directly to him, the other in cash paid in his behalf for his insurance.

COLLECTING THE EMPLOYER'S TAXES

There is no more important immediate administrative problem in

state unemployment insurance than the avoidance of the excessive routine of record keeping which threatens because of our possible failure to anticipate the difficulties, to invent the short cuts, and to content ourselves with the indispensable data. The studies on the subject are wholly inadequate. I myself am in no position to contribute to them here or elsewhere, hence I am merely raising some questions which seem important. The rest of this article attempts merely to call attention to the urgent need for the intensive study of certain problems of procedure in tax collection and benefit payment.

The collection of the employers' payroll tax would, as a tax matter, be one of the comparatively simple things if there were no relation between the payments made and the claims which individual workers would subsequently make. For the employer would merely have to certify what his payroll was, within the employee coverage specified, and then pay the required payroll percentage. This is, in fact, the only thing in which the Federal Government is interested.

The situation which the State administration or the employer in any state actually faces is different. The nature of the information required concerning the individuals in his employ makes much of the difference. The fact that unemployment benefits will be payable in every week of the year and must be based on credits until the time applied for, requires knowledge by the State administra-

tion of the condition and eligibility of individual applicants.

The State administrations must, therefore, under existing unemployment compensation laws, have certain records which will be used as a basis of benefits. Some will not require such information until 1937 but others have begun now. These states must know, in the first place, the normal full-time weekly earnings of each employee, so that it can pay him, as benefit, when required, fifty per cent of these earnings. Since an entry of wages paid would not alone show whether they are for a half-week or a full week, it is necessary to have the number of hours for which the wages were paid, and compare this in general to what is held to be the customary hours for working and compensation in this particular industry.

This would so far help determine the amount of the benefit payable, but not its duration, for the latter is based upon the ratio to the number of weeks a man had previously worked in an insured job for which payments had been made in his behalf. In New York, for example, it is one week for every 15 days of employment in the past 52 weeks, in New Hampshire, one for every four weeks of employment in the past two years. Thus a record must be kept of the amount of time worked, in terms of the number of insured weeks credited to an employee, so that when he becomes unemployed the amount of benefits may be accurately determined in amount and duration.

There is also required a record of time lost through lack of work. In all States there is a waiting period before benefits are payable. In some States this lost time includes time lost while under-employed, rather than merely time when completely unemployed. For example, under the New Hampshire law, if a worker had been working only one day a week, he would the sooner become eligible for partial unemployment benefits, or, if entirely laid off, for full unemployment benefits. These are not all of the data which must be kept, but they indicate some of the main types of facts which administrators of State unemployment insurance will need and which complicate the procedures.

These difficulties may be further augmented by the possible inclusion in the projected forms of requests for data not absolutely necessary in the practical operation of unemployment insurance but designed to yield fuller statistical information for general economic purposes. If such additional data were merely an incidental feature of a smoothly functioning routine there would be less reason to question their inclusion. But when that routine, at best, will for years involve tremendous new difficulties taxing the organizational capacities of state administrations, it may be the better part of wisdom to bow to the realities of the situation and postpone them. The elimination of certain data which people of the statistical and planning turn of mind finds

satisfying and valuable will not, in actual effect, be such a handicap as thought. The introduction of wide registration of unemployed and of benefit payments to unemployed and of other facts will produce new and vital information never before had in this country, and will suffice for the practical purposes of society in so far as it uses such data in actual remedial measures. The rest of the data is caviar and, if necessity requires, as it probably does, should be postponed or obtained through inquiries based on sampling, as in Eng and.

WEEKLY AND MONTHLY PAYROLL REPORTS

The question of how much information can actually be handled properly involves, in many states the mooted question of whether weekly and monthly payroll records should be required of employers. In the plans contemplated or actually promulgated in several states, the employer will have to make weekly or monthly returns. As a basis of these each employer covered by such laws will have to keep records concerning each employee, including his name and other identifying data, the wages earned during the payroll period, the number of days worked during the payroll period, the number of hours involved and similar facts. If it were merely a question of keeping these records the law would probably not be much of a hindrance to employers, since the advantages to the

employers themselves might as a whole balance the little extra work of knowing more about their operations. The burden to employers depends on how much detail and how often the insurance administrations will require such data to be transmitted.

Yet it is not from the employers' standpoint, but from that of the insurance administration, that the really grave question is presented. If it is true what within the New York State coverage there may be some 250,000 employers and over 3,000,000 workers, as its administration believes, consider its problem of record-keeping alone. There is a possibility, multiplying the monthly records by 12, that the clerical staff of the insurance administration would have to handle a mountain of payroll sheets each year, containing tens of millions of individual items which will have to be entered on individual employee record cards. Many of these items, will, of course, be incomplete through misunderstanding or design and thus involve correspondence, telephone calls and other follow-ups which will keep stacks of payroll sheets lying around for checking. When we consider that these records are only preliminary to the payment of benefits in correct amounts, and that various other kinds of records will be kept, we can see that the magnitude of the administrative routine is of a staggering prospect. The tremendous amount of paper work may become a pressure on the public employment

offices interfering with the performance of more important duties.

Our administrators are a brave lot and do not appear to be alarmed at the prospect. Unemployment insurance requires records, and administrators react to the size of the task with the cheering reply that though the job is big, they can "lick it." Some even think that they can do it at a cost which is less than that required for administrative expense in Great Britain. Their optimism is, in part, justified because we are living in a machine age and clerical equipment has become so marvelous that it is capable of conquering pretty rough terrain. But the optimism is also somewhat affected by the rosy pictures which the clerical machine corporations have provided through using precise calculations made more from the standpoint of industrial engineering than by full recognition of the problems of public service administration under present conditions.

My sympathies are wholly with the administrators of the law, who are trying earnestly to overcome the trying problems which a new measure naturally presents. In raising these issues my purpose is merely to call attention to some practical problems through healthy and constructive criticisms leading to improvements, and thus ultimately to confound rather than to aid those who are using the normally expected difficulties of installation of unemployment insurance as a device to discredit the idea

of the law itself. Many of the rules and procedures planned or adopted by insurance administrations are forced upon them by the nature of the laws passed, and considerable easing of the burden can and must be accomplished through detailed amendments seen as necessary when actual administrative procedures are analyzed. The question for immediate study is where we can cut the administrative routine so as to leave only the absolutely indispensable procedure. The administrators of insurance should not be interfered with in their efforts to obtain an adequate, dependable system of control, for the law must be effectively enforced.

If one seeks ways of cutting down processes which consume time and money, he cannot but help being impressed with the fact that under a plan of regular weekly or monthly postings, a great deal of work, from submission of data on payroll through queries, letters and investigations will revolve around the completion of the records for employees who are not applicable for benefits at all and who may not be for an indefinite time. In view of the fact that in Great Britain some 40% of the insured workers have never drawn any benefits because continuously employed, is there any way to reduce the labor involved in taking care of this group? I believe that this question would lead to a most fruitful enquiry if patiently and impartially pursued.

To some extent the question was aired in the contention between the

New York State unemployment insurance administration and the New York State Employers Conference, a debate in which the state insurance administration's case is, in my opinion, much more cogent than that of the employer group. Possible compromise arrangements are possible whose possibilities were not fully explored. The employers, in insisting solely on separation reports, seemed to object to full payroll returns at any time, rather than attempt to reduce their frequency. Compromise arrangements might include annual or semi-annual payroll reports, plus separation reports for individual workers when laid off. There is also the possibility considered by the New York administration at one time, and by New Hampshire, of exempting from monthly return forms that group of workers whose employment may be considered permanent. Studies of these expedients would get us somewhere in the process of adopting an economical system. Employers should be more cooperative and administrators, in turn, must accept methods less satisfying from the standpoint of sociological interest in compilations but making for a smaller load in the administration of insurance collections at these initial stages of the movement.

CAN STAMP BOOKS BE USED IN AMERICAN SYSTEMS?

One subject which needs to be studied in more detail is the possibility of using the British system of

stamp books. It is notable, of course that in the British plan no monthly payroll reports are required, nor as far as I can learn, annual payroll reports at any time. The system in use relies chiefly upon the individual insurance book of the worker, in which are pasted stamps in the appropriate places, to signify that the employer has paid a premium toward the worker's account for the weeks shown, as well as the fact that he has made a deduction for the employee's contribution. This pass book remains with the employer as long as the worker is employed. If he is laid off, the worker brings the pass book to the public employment office and records himself as unemployed. The employment office then has, through the pass book and its stamps, a continuous record of the employee's past record.

The pass books are, however, collected at the end of the year and certain individual entries are then made. How much work can be saved through this method as compared with monthly postings and similar matters are subjects suggesting analyses of timely interest and great importance. It is clear, of course, that certain features of the British law favor the use of stamp books which are not part of our laws. The British regulations do not, for example, base the duration of benefits on an exact ratio to contributions, such as found in American laws, and they have various provisions simplifying the routine tremendously.

The most favorable British feature is the fact that the contributions made on behalf of a worker by the employer, and those of the employer on his own behalf, as well as the benefits payable, are uniform within certain definite classes. The rates of contributions differ as between men and women, with separate rates for children, minors and adults in each sex—in all six classes. Exactly the same contribution is paid for a person of a given age and sex, whether his earnings are low or high within that coverage group. Benefits are likewise standard, with fixed allowances for dependents.

In this country, however, the contributions in all plans are on a percentage basis. To pay 1 or 2 or 3% of all the possible earnings between, let us say, \$5 and \$50, would require stamps in amounts from one cent to \$1.50. The actual use of pasted stamps is possible only by the use of assortments of stamps in combinations, but in that event, large spaces would have to be provided in order to permit affixing such stamps as would be necessary to make up a desired combination. This itself is no great obstacle. The larger and more progressive concerns might use a meter-impressed stamp, such as is now permitted by the Post Office for any concern which wishes to substitute meter-impression for the actual pasting of stamps. Possibly only the larger and more responsible concerns might, on bond, be permitted to use

stamps. The smaller concerns might be asked for monthly payroll reports.

Can the data ultimately to be required for the payment of benefits and waiting periods be obtained through stamp books? Yes and no. Given a constant ratio of let us say 1%, then the face value of the stamp may on inspection be multiplied by 100 to ascertain the employee's wage. If the tax is 3%, the formula is a bit more complicated but can easily be recorded by a guide card showing what the full time wage corresponding to any tax is. The equipment can also record the number of hours worked and other facts. The companies making the mechanical equipment for impressing and metering stamps state that such features can be put on stamps, either as part of the impression or as part of the cancellation.

The advocates of stamp books will have to hurdle another obstacle, however, in adapting such a method to the variations in payments which will be permitted if and when the "merit rating" features of state laws come into force. By merit rating is meant the rewarding of regular production and employment by the reduction of the employer's own premium when his record shows that he has cost the state unemployment fund less than certain stipulated amounts or ratios. Thus, New Hampshire's law provides that beginning in 1941, employers shall be rated, in accordance with their record, as being required to pay, instead of the maximum tax

of 3%, four lower scales of 2½%, 2%, 1½%, or the minimum of 1%, in accordance with certain ratios which need not be described here.

A worker employed at \$30 a week by five different employers in a year could conceivably have recorded as the weekly contributions of these employers such five different amounts as 50¢ (3%), 75¢ (2½%), 60¢ (2%), 45¢ (1½%), and 30¢ (1%). Under these circumstances the amounts shown in the stamp book could not immediately be translated by a simple formula to show the employee wage base on which it was figured.

On the other hand, this would be no great difficulty in those states which have workers' contributions, for a uniform 1% payment, shown separately, would tell the story completely, independent of the varying employers' premiums. Moreover, merit rating is not yet with us,—and in spite of our state laws, may for constitutional reasons not be possible. The possibility, even if remote, that the stamp book might prove even a partial basis of reducing the routine of record keeping makes it worth fuller exploration.

BRACKETING OF WAGES AND BENEFITS AS A SOURCE OF ECONOMY

It was previously stated that early attention is needed to such matters of law as may yield amendments to ease the burdens of administration. One of the chief complexities of the insurance provisions is the attempt to collect a tax on the exact wage and to

pay benefits as exactly 50% of an exact wage, with all the refinements of detail this will introduce and the enormous addition in work it will bring to insurance administrations. In England and most continental systems the payments are more standardized and thus practically eliminate figuring the amount of weekly benefit.

One way of reducing the burden in this country might be to pay as benefits standard amounts based on wage classes. Thus, instead of paying an exact 50% of wages of \$25.40 and of \$25.42, one might put all employees earning \$25 to \$26, and and possibly \$25 to \$27 in a single class and have them entitled to a uniform benefit of, let us say, \$13. This would have certain practical advantages and has been a feature of German Unemployment insurance. This idea of bracketing has already been urged by several authorities on unemployment insurance in this country as being at least in principle desirable in the payment of benefits.

But would such bracketing be permitted in figuring the tax when paying contributions as well as in the payment of benefits? At the present time the Federal taxing system does not permit the levying of a tax in accordance with wages of employees classified in brackets. That is to say, if an employee's wage is \$26.80 and the tax in 1936 is 1%, the Federal government expects the employer to pay a premium of 26.8¢. If under a State plan the employee earning such a wage were classified as being

in the \$25 to \$27 class, paying a flat payment of 26¢, he would be paying less than called for under the Federal plan.

If the Federal Government cannot permit, for the sake of economy, a tax based upon brackets established by it, then under purely State bracketing employers might find the Federal Government calling for an extra amount because of a discrepancy between what had been paid to the State and the amount called for by the Federal law. More likely, however, an employer would so arrange his wage scale, where possible, that he would have the discrepancy in his favor. He might not be able to do this where the worker was on piece rates. It would be the salaried worker, if any, who would lose by it. Where there was no provision against it, the temptation to the employer would be strong to "work" the brackets.

Thus, if there were considerable difference in employee benefits, in accordance with whether he was earning \$24.99 or \$25.01, there might be a strong pressure to have wages so arranged that they would work to

the disadvantage of the Fund. This would be a factor in the way individual and general wage increases and decreases would be made. This disadvantage would probably be less where employee and employer interest were opposed. One way of minimizing these tendencies to "work" the brackets would be to have them within pretty narrow classes. Obviously there would be less inducement to fiddle around with brackets in which all employees were grouped within a fifty cent range than there would be with brackets of from two to five dollars' range. But if the brackets are made too small, the advantages of bracketing tend to be nullified.

I have discussed briefly some of the major problems of detailed administration which must be met in connection with the new laws. Of course, much additional knowledge concerning their application is imperative, and it is essential that thorough studies will be made and published on some of these detailed subjects, as an aid to the adaptation of sound and economical systems.

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